

Management News

BUSINESS CONDITIONS & FORECASTS

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The President's Scratch-Pad

Of Time and Changing Leadership

MANY great men have been great because they lived at the right time; conversely, many men have been failures because they lived before or after the time for which their natural aptitude or genius especially fitted them. Synchronization of individual genius with political, social, and economic cycles is a fortuitous thing. But there is also a certain element of certainty about it. Long-term climatic cycles tend to encourage a definite type of leadership, peculiarly suited to each period.

Our depression of the 1930's called forth one type of business and political leadership; our war period demanded a different type. Periods of low interest rates require the abilities of one kind of administrator; high interest rates, competence of another sort.

In politics the reaction between leadership and changing social and economic conditions is fairly rapid, because office holders can be voted in or out at relatively frequent intervals. But in the field of business these changes of leadership take place comparatively slowly. The individual who distinguished himself by wise and conservative administration during a period of economic stringency may continue to administer conservatively (even wisely) during a period that demands aggressive expansion. The great expeditor of the war period who insisted on getting things done at any cost may continue to hold sway in an era that demands great caution, precise and careful planning.

The plunging exploiter who was successful in a lush and palmy period may stay in command long after the times have begun to call for a slow conservative. In each such instance the times will be working against the individual, no longer with him as they were during the period of his greatest administrative success. And, given long enough, they will catch up with him, too.

It would seem, then, that industrial

(Continued on page 4)

TRENDS IN BUSINESS

GENERAL OUTLOOK

Upturns in production and construction, which got under way earlier in the fall, appear to be gathering strength as 1947 draws to a close. Production is estimated to be close to, or above, the postwar peak achieved last March, and construction appears on the way to setting new records. Other business indicators are also showing highly favorable scores. Unemployment is negligible, personnel income is high, and retail trade volume is well above the figures for last year at the same time.

CONSTRUCTION

Between 825,000 and 850,000 new dwelling units will be completed in

(Continued on page 2)

To all members in the seven divisions of the A M A

the Officers and Headquarters Staff of the

Association take pleasure in extending

warm greetings and best wishes for a

Merry Christmas

and a

Happy and Prosperous New Year



INV. '89

Trends in Business

(Continued)

1947, the Department of Commerce now estimates—in contrast to 1946, when the total was 440,000.

In October, building permit values were larger than in any October of which there is any record, Dun & Bradstreet reports, representing a 90.3 per cent advance over October, 1946. With the exception of March, 1946, the total was, in fact, larger than that for any previous month since 1929.

PRODUCTION

Production advanced better than seasonally from September to October, and is now close to the high levels of early Spring. Production of steel ingots rose early this month to the highest point since May, 1945.

Textile production, which suffered a considerable drop in the Spring is coming back strongly, and other lines, including automobiles, are chalking up high output scores.

DISTRIBUTION

Retail trade in the first week of this month was running 10 to 14 per cent above the dollar volume of the corresponding period last year. In the week ending November 29, department store sales were up 10 per cent from last year, and the total advance for the year to that date was 8 per cent over 1946.

FAILURES

Compared to prewar years, failures are still running at a phenomenally low rate. Liabilities, however, are high even in comparison with prewar years.

Liabilities in October, Dun & Bradstreet reports, were above any monthly total in the last ten years, with the exception of July, 1947, and had the highest dollar aggregate of any October since 1935.

Total number of failures for the year to the middle of November was 3,059, compared with 948 in 1946.

SOURCES:

ALEXANDER HAMILTON INSTITUTE
BROOKMIRE, INC.
BUSINESS WEEK
CLEVELAND TRUST COMPANY
DUN'S REVIEW
FEDERAL RESERVE BANK OF
NEW YORK
NATIONAL CITY BANK

The Listening Post

Bonus plan • Wolverine Tube Division of Calumet and Hecla Consolidated Copper Co. uses a group bonus plan under which payments are based on the average pounds shipped per day.

Productivity is up in consequence, the company finds, and there are some by-products as well. For example, supervisors often spent as much as 75 or 80 per cent of their time seeing that employees were on the job. Now employees police each other.

The cost of administering the plan is practically nothing, according to D. D. Decker, Director of Industrial Relations. There is no need to maintain a large force of time study men, production checkers, etc., as under an individual incentive plan, since the regular daily shipment figures used in the calculations are obtained for other purposes anyway.

Contributory pension plans • Trend in pension programs, according to Maurice F. Lipton, Equitable Life Assurance Society of the U. S., and speaker at the AMA Insurance Conference, is toward plans requiring employee contributions.

Another Conference speaker, however, suggested that employee contributions involve some economic waste. "If the employer pays \$1.00 to a retirement plan," said Esmond B. Gardner, Chase National Bank, "that money will provide \$1.00 worth of retirement income. If that \$1.00 is paid to the employee, he will have to pay an income tax on it, and only the balance will be available for the retirement plan. Assuming the lowest tax rate of 19 per cent, this leaves 81 cents. Employee money used in a retirement plan is almost invariably applied on a basis of return in case of death before retirement; and on that basis, approximately two-thirds of it is used for strict retirement, the remaining one-third for the refund benefit. Consequently, the same amount of retirement benefit can be supplied by not more than 54 cents of employer money paid directly to the retirement plan.

What employees themselves want is rather problematical. "We have a trusted non-contributory plan established a year or two ago," the president of one company writes to AMA. "But in recent months we have learned that a number of employees think this should have been a contributory plan with higher benefits—whose cost would be deducted

from salary checks. While, for obvious reasons, we would like to see the plan extended in this manner, we are reluctant to make the contributions compulsory. And, on the other hand, our actuaries advise us that we can expect only a handful of our employees to join if participation is optional."

Non-automatic progression • Operating almost entirely on a job-shop basis, the Dobeckmun Company of Cleveland found incentive plans inapplicable. As a substitute it is using a plan under which the employee's progression within the rate range depends mainly on his merit-rating, and has found results highly satisfactory. Top-rate employees who consistently turn in poor performances may be cut back again; outstanding employees may be jumped more than one step in the scale.

In view of the union tendency to insist on automatic progression within the rate ranges, it might be supposed that such a system would be possible only in an ununionized plant. Dobeckmun is unionized, however, and has succeeded in getting union acceptance of the plan.

The third round • Prospect of another round of wage increases would be less distasteful to management, one AMA correspondent suggests, if there were any possibility that it would not become a permanent part of the wage structure. "The main concern of management," he writes, "is, I believe, that basic wage rates are practically inflexible and any increase in them will mean an irretrievable boost in break-even points."

As a possible alternative he suggests a bonus. If it amounted, for example, to 15 cents an hour for 50 weeks of 40 hours, he points out, it would mean \$300 for each employee.

"Such a bonus," he continues, "could be considered as chargeable directly to earnings before taxes rather than to cost of sales and would be what I am advised the professional accountants call a 'period cost.' The payment would be charged off, and that would be the end of it."

"Many people might class such a bonus as inflationary, but we do not feel that this is necessarily so. The worker is much more likely to save the \$300 if he receives it in a lump sum than if he receives it as an hourly increase over the year."

JAMES O. RICE

RESEARCH DEPARTMENT

Qualifications of an Insurance Manager

Which type of education and experience is more valuable to the insurance manager—broad business training or specialized work in insurance?

In a recent AMA survey of insurance practices* covering nearly 300 representative companies, replies were almost equally divided on this question. Smaller companies favored broad training, preferring a man with a major in law, engineering, accounting, or business administration; larger employers stressed specialized insurance knowledge.

The reason for this is clear when the replies to the questions dealing with the organizational set-up of the insurance department are examined. In the smaller firms, the insurance administrator is generally an officer of the company—the treasurer, the secretary, or the controller, perhaps.

IN LARGER COMPANIES

As the size of the business organization increases, however, its staff tends to become more specialized. In the larger businesses, it is felt that an insurance manager is indispensable, since the executive officers are fully employed in other duties, and the direction of a broad insurance program must be based on knowledge and experience which an untrained subordinate lacks.

As a composite of the requirements the insurance administrator may be reasonably expected to meet, the following qualifications are suggested, in order of their importance:

1. A general knowledge of insurance coverages and practices.
2. An understanding of business law.
3. Experience in the employer's line of business.
4. Ability to think objectively.
5. Some knowledge of the physical side of safety practices.
6. An education, preferably formal, which will permit the insurance manager to grow and assume positions of greater importance and responsibility.

The fully qualified insurance manager may be expected to do the following:

1. *Eliminate waste.* This includes, but is not limited to reduction of insurance premium. Since it is well known that a fire or industrial injury causes production or sales losses entirely out

of proportion to the seriousness of the casualty, reduction or elimination of casualties—personal injuries or property destruction—will result in economic savings greater than insurance recoveries on the losses. In addition, it is possible to evolve an insurance plan which will put every dollar of insurance premium to work in a quarter where protection is necessary. If, for example, it is necessary to budget expenses in the most exacting manner, where and what is the prime subject of insurance? This can be determined only after exhaustive study of the company's operations.

2. *Certainty of protection.* The fact that the broad coverage provided by modern insurance may fill gaps automatically does not eliminate this requirement. It is not good business to buy "shotgun" insurance to compensate for inability to recognize exposures and hazards.

3. *Development of proper insurance contracts.* This is closely allied with No. 2, but because of its importance is considered separately. An insurance contract, like any other contract, has pitfalls if it is not fully understood. There are many conditions and exclusions which, if applied technically, may make recovery or indemnity impossible. These must be searched out and corrected. If necessary, special contracts must be drawn to cover non-standard situations. In cases of this sort, the insurance administrator must have a certain amount of legal training if he is to know what to do.

4. *Adjust losses properly.* An accountant can determine the extent of a physical loss, but unless he is specially trained he may not obtain the maximum recovery to which his insurance contracts entitle him, both legally and ethically.

CORRECTIVE MEASURES

It is evident that superficial knowledge of his subject on the part of the insurance administrator may prove costly to his employer. Where the control of insurance is in the hands of untrained personnel, the situation should be corrected immediately. The insurance administrator may: (1) acquire a trained assistant; (2) undertake classroom or extension study of basic insurance principles; (3) hold monthly conferences

with the insurance broker, insurance company engineers, operating management, and legal advisers.

ASSISTANCE REQUIRED

It is believed also that the insurance manager will require a higher grade of stenographic help than many other executives. Generally, reports of insurable values are accumulated and scheduled by the clerical assistant, who may also handle various phases of insurance which follow a definite pattern and on which there is a definite policy. And since the insurance administrator may be away from his office at times, the assistant may be called upon to decide which matters must be processed immediately and in what manner—hence he or she must have an understanding of the employer's business, knowledge of insurance contracts, and of the company's internal policy. It is recommended that a moderately high-grade stenographer-clerk be used in this capacity.

Where the insurance administrator is in need of assistance beyond that which can be furnished by the stenographer-clerk, the consensus is that the assistant must have considerable formal education. A full four years of college with a major in law, accounting, engineering, or business administration is considered necessary.

PLACE IN ORGANIZATION

Administration of insurance is generally a function of the treasurer's department, and the treasurer usually requires weekly or bi-weekly oral reports. In the course of such conferences he is advised of all developments which may affect insurance coverage or cost, company policy, security, or losses, and the insurance manager suggests adoption, amendment, or cancellation of coverages. At the same time the treasurer keeps his insurance administrator advised of every change in company policy or operation which may affect insurance. In many instances, minutes of meetings of the board of directors and the executive committee are reviewed jointly as a check.

Packaging Show

AMA's Annual Packaging Exposition will be held April 26-30 at the Auditorium in Cleveland. A four-day packaging conference will be held in conjunction with the show.

*To be published later as a full-length research report.

ACTIVITIES of the AMA

Financial Conference Scheduled For Jan. 15-16 in New York City

Inventory and Depreciation Accounting, Sources of Funds to be Discussed

AMA's Financial Conference, scheduled for January 15 and 16 at the Hotel Biltmore, New York City, will be devoted to examination of the probabilities of the present economic situation, and to exploration of the methods financial men can employ to safeguard their companies against the uncertainties inherent in it.

Considerable discussion will be devoted to the management of reserves for inventories and depreciation, which, preliminary surveys indicated, is the subject of greatest concern to finance executives at the present time. The financial aspects of break-even points will be considered also.

Possible sources of funds, for working capital or expansion, will be a featured topic, to be discussed at a panel session by a group of experts.

Other subjects to be taken up at conference sessions include: "The Short-Range Economic Outlook," "The Marshall Plan and Its Impact on American and Foreign Business," "Tax Prospects for the Next Decade," "Control of Salary Expense," "Stockholder Relations and Proxy Solicitations," and "The Trend of Interest Rates."

Murray Shields, Vice President, the Bank of the Manhattan Company, and AMA Vice President for the Financial Division is in charge of the program.

Conference Schedule Is Changed Slightly

Two changes have been made in the AMA conference schedule since it was first announced early in the fall.

The Spring Production Conference, May 13-14, originally planned for Detroit, will be held in Chicago instead, at the Palmer House.

The Spring Insurance Conference, which was set for May 27-28 in New York, has been moved up to May 24-25, and will be held at the Hotel Ambassador in Atlantic City.

MARKETING CONFERENCE

AMA will hold a two-day Marketing Conference at the Hotel New Yorker, New York City, March 18-19.

The President's Scratch-Pad

(Continued from page 1)

leadership is in an almost continuous state of adjustment, as it tries to accommodate itself to changing business cycles. The extent to which businesses suffer by permitting a lag between their change of leadership and the change of times can only be a matter of conjecture. But the forces that require new leadership are inexorable; they cannot be blocked; the individual who is best fitted will gain the ascendancy, or, inevitably, the enterprise will suffer or even go under.

This is a very real and practical problem. It is thoroughly understood by many business owners, by boards of directors in some instances, and by groups of stockholders. The solution of the problem does not lie in changing the man at the helm every time there is a change in the economic barometer.

Rather, the objective should be to develop a flexibility in top management that permits continuous and automatic adjustment—to have a multiple type of leadership, or a leader with many advisers and a leader who takes their advice.

There is a story in ancient history of a French king who, when in battle with a mortal enemy, found himself separated from his generals and tacticians, alone except for the company of his thirteen-year-old son. But the king defeated the hosts of his rival because he was assisted by the boy, who had sharp eyes and kept continually crying out to the father, "Take care of your left," or, "Protect yourself on the right, father."

The origins of this story are misty, but it has an edifying significance. Men of great responsibility often find themselves in battle alone by choice. They deliberately separate themselves from advisers because they believe they are omniscient.

There are other men who, while sur-

Personnel Division Arranging Program For February 16-18

The probable future trend in labor relations and new techniques of personnel administration will be discussed at the AMA Winter Personnel Conference, to be held February 16-18 at the Palmer House, Chicago.

Among the topics being considered for presentation are: developments under the Taft-Hartley Act, employee communication, pension plans, attitude studies, profit-sharing plans, and incentive bonus arrangements.

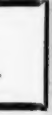
Members of the Division Planning Council discussed preliminary plans at a luncheon meeting December 9 at the Waldorf Astoria, New York City. Present were John A. Stephens, AMA Vice President for the Personnel Division, Lawrence A. Appley, Lemuel R. Boulware, Samuel L. H. Burk, Ernest de la Ossa, Arthur B. Goetze, Elinore M. Herrick, Lee H. Hill, C. L. Huston, Jr., Fred A. Krafft, and W. H. Winans.

rounding themselves with wise counselors, refuse to be guided by them.

There is another kind of man who has successfully trained his associates to accept all his decisions without argument. There is a tyranny in all men that impels them to work their will upon the next fellow, but the average man is checkmated by other average men and the balance is maintained. It is the man who is not average, whose responsibilities give him eminence, who is most seriously tempted to ignore the beliefs and opinions of others.

In modern management, facilities exist, through wise organization planning, to forestall disasters that can arise out of possible delusory behavior on the part of a top leader. Top corporate management in this day and age, for the most part, is, fortunately, a consultative process, in which a composite of different kinds of minds and men with different kinds of training are brought in for discussion when important matters of policy are being decided.

Alvin E. Dodd



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